

**Project to Support the Implementation of a Science,
Technology, and Innovation Center of Excellence in Panama
(PN-0134)**

EXECUTIVE SUMMARY

Borrower:	The Government of Panama	
Executing agency:	City of Knowledge Foundation	
Amount and source:	IDB: (OC)	US\$ 3.3 million
	Local counterpart funding:	US\$ 2.0 million
	Total:	US\$ 5.3 million
Financial terms and conditions:	Amortization Period:	15 years
	Grace Period:	3.5 years
	Disbursement Period:	3.5 years (except for those disbursements corresponding to the final evaluation which will take place in year 4)
	Interest Rate:	Variable
	Supervision and Inspection:	1% of loan amounts
	Credit Fee:	0.75% yearly over undisbursed balance
	Currency:	US dollars (Single currency facility)

Objectives:

Created in 1995, the City of Knowledge Foundation (CK) is a private, non-profit institution responsible for developing a science and technology park and academic programs on 120 hectares of land and infrastructure that until recently comprised the US Fort Clayton. The facility forms part of the Inter Oceanic Region (ARI), previously the Panama Canal Zone, and is valued at an estimated US\$100 million. The CK's operations began at Fort Clayton in early 2000.

The CK requires strategic support from the Bank to strengthen its organizational structure as it enters a critical phase of its development. Indeed, this period will be essential to forging the CK into an institution that is independent and sustainable. The present project aims to promote capacity building and learning, which will allow the CK to make optimum use of its endowment and define market demand before it commits to additional investments. Based on the recommendations of the two feasibility studies and the business plan, the project's objectives are:

- (i) The design and implementation of a new corporate-style organization.
- (ii) The development of a comprehensive and aggressive marketing plan.
- (iii) The renovation and upgrading of information technology facilities in order to provide requisite quality services.

Description:

The project has three components:

1. Organizational Strengthening and Monitoring and Evaluation (US\$540,000)

This is a key strategic component for institution building. The CK, as an open system, requires special expertise to design and implement mechanisms to interact with its environment; improving its capacity for strategic planning; articulate organizational tasks, define and assign accountable duties; and develop appropriate information gathering and processing technologies. An important first step will be to cultivate well-informed and experienced managers and to foster a "learning organization." Three different approaches will be tested for effectiveness.

2. Marketing: Promotion and Diffusion (US\$1,160,000)

The second component will finance activities to attract the types and numbers of tenants needed to guarantee the CK's financial and institutional sustainability. Since the CK is an emerging concept in the Central American region, it faces the challenge of educating prospective users about its advantages, compared to alternative options for obtaining science and technology services. The marketing activities will fall into two sub-components:

- (i) The first subcomponent will comprise a wide range of promotional activities.
- (ii) The second subcomponent will consist of a rebates-based incentive scheme that will extend existing practices through the project's implementation period.

3. Upgrading of Information Technologies (US\$1,090,000)

The project will support the conversion of existing conference facilities into a high-tech "intelligent center". Investments will provide the CK with the necessary capabilities to deliver teleconferences, distance education, rapid Internet connections, and other services demanded by industry and academia. In addition, the loan will provide resources to create a new position: information technology specialist/web master.

**Innovation,
Monitoring and
Evaluation**

The Innovation Loan Modality (Doc. GN-2085-1) supports experimental projects (under US\$10 million) that boost institutional capacity in preparation for larger programs, build valuable institutional experience, and demonstrate the potential of taking a specific approach to overcoming a development constraint. It is appropriate for the CK project because it will facilitate the following:

- (i) **Learning:** The acceleration of capacity-building and learning will encourage the CK to make optimum use of its endowment and to define its needs through market demand before it commits to additional investments.
- (ii) **Flexibility:** The CK needs to test a minimum number of alternative management and marketing strategies before it decides on an appropriate and sustainable organizational arrangement. This process will lead the CK administration to clarify its mission and to design a longer-term business and investment plan. Both of these critical activities will be crafted on a sound understanding of the character of the demand for services, infrastructure, and procurement needs.
- (iii) **A novel approach:** The CK is a novel approach to diffusing technology that has not been tried on this magnitude in any small developing country. The institutional strengthening provided by this loan is critical to assessing how effective this new strategy can be in linking industry and knowledge-providers and in shrinking the digital divide .

The Innovation Loan Modality is also designed for projects that require rapid implementation in order to maximize the impact of the Bank's intervention. The CK has reached a point in its institutional development –especially now that it has to manage the former Fort Clayton premises- where it requires speedy strengthening of its organizational and marketing capacities. The sooner the administration puts in place strategic planning in these areas, the faster potential tenants will be able to sign contracts and fundraising activities will be able to take off. This will also allow the CK to capitalize on favorable political and institutional momentum, and to respond most effectively to the growing number of local and international firms that are already installing their operations. A more lengthy project preparation runs the risk of losing these advantages.

**Bank's country
and sector
strategy:**

This proposal supports the Bank's country strategy, which includes the development of the ARI and Panama's new National Competitiveness Strategy. The project has the full support of the GOP, which has developed the CK as part of a stimulus package to create growth, opportunity, and employment in the ARI region.

With its focus on improving the productivity of industry, the CK is also a key element in the National Competitiveness Strategy and it complements the technological innovation program initiated by the National Secretariat for Science and Technology (SENACYT). SENACYT's program is establishing the coordination of national technological change (IDB loan PN-0109, under execution). The CK project, in turn, will develop new markets for knowledge services and strengthen Panama's comparative advantages.

Finally, the proposal is consistent with the Bank's support of other technology and productivity projects in Central America. The CK could make a substantial contribution to regional technology diffusion and share benefits with these similar initiatives. Guatemala recently approved a loan for science and technology (GU-0134), Panama has a science and technology loan in execution to create competitiveness in the productive sector (PN-0109), and loans are under preparation in Nicaragua (NI-0147) and El Salvador (ES-0114). Further examples include the Dominican Republic's CyberPark and Costa Rica's recent incursion into high-tech services (spearheaded by Intel Corporation).

**Environmental/
social review:**

The project will not require the construction of new buildings or infrastructure, only the refurbishing or renovation of military barracks into offices and meeting rooms. The project does not meet any of the five conditions, as stipulated by the regulations of the 1998 General Environmental Law (Law 41), that would place it in the so-called "taxative list" of projects, which require an environmental impact assessment due to their negative environmental impact. It can be concluded that the environmental impact of the CK project is negligible or zero. In addition, the CK will emphasize research and academic programs that will improve capacity for conservation and environmental responsibility. As such the CESI did not recommend any further action (TRG 30-00, Aug. 11, 2000). (Par. 5.8)

Benefits:

The preparation studies concluded that if the project is quickly implemented, it is likely that it will be economically sound and financially self-sustainable with positive returns-on-investment. The project has been conceived at a time when the emerging global economy—largely driven by knowledge-based exchanges—is forcing local enterprises to acquire new skills and to think and act more competitively and efficiently. The CK will now have the opportunity to focus its efforts in these directions, and to derive maximum benefit from developing its operations at the former US Fort Clayton.

A spin-off of the project will be the transfer of skills and technology to the local and regional economy, thereby producing a highly trained and qualified labor pool. The effects will extend beyond Panama and should favorably impact the economies of the sub-region.

Risks:

The fundamental risks of this project are: (i) the minimum necessary strategic international alliances cannot be established due to time constraints; (ii) the required minimum number of tenants for financial viability is not achieved; and/or (iii) the current high level of support from the GOP or within the ARI may falter. The experts who will be contracted with bank resources will design a strategy to reduce these risks, with control mechanisms flexible enough to correct deviations from pre-established indices or to reinforce certain components as the project evolves.

In the worst case scenario, where none of the envisioned alternatives crystallize, the land and facilities could be returned to the GOP intact or improved. They would not have lost their value (in fact, they may have increased in value, both due to improvements and the expected future shortage of land in the Panama City area). The GOP could use them for other development purposes. Unlike Singapore or similar projects, the CK requires very little investment and the opportunity cost is relatively low due to the existing supply of land and infrastructure.

Special contractual clauses:**1. Conditions precedent to first disbursement of the loan:**

The borrower must demonstrate to the IDB, that:

- (i) It has signed the Funds Transfer Agreement by which the proceeds of the Bank loan are transferred to the Executing Agency, and that the Executing Agency has assumed the obligations incumbent upon it, according to the terms previously agreed upon with the IDB. (Par. 3.1)
- (ii) It has entered into force the Project Operations Manual, according to the terms previously agreed upon with the IDB. (Par. 3.5)
- (iii) The plans (terms of reference for consultants, and time and cost schedules) for marketing and management reorganization have been agreed by the Bank and the CK Board of Trustees. (Par. 3.2)

2. Recognition of expenses

It is proposed that up to the equivalent of US\$250,000 be recognized to cover expenses incurred since 1 December 1999. These should be credited to local counterpart used to finance activities eligible under the terms of the project. Normal IDB procedures will be used to verify that criteria and procedures substantially similar to those established in the loan contract were followed (Par. 3.13).

Poverty-targeting and social sector classification:

This operation does not directly qualify as a social equity enhancing project, as described in the indicative targets mandated by the Bank's Eighth Replenishment (Document AB-1704). Furthermore, this operation does not qualify as Poverty Targeted Investment (PTI). (See par. 5.7). The borrowing country will not be using the 10 percentage points in additional financing.

Exceptions to Bank policy:

None

Procurement:

The procurement of goods and services will be governed by the IDB's procurement procedures. Execution of the program will require consulting and supervisory services, the acquisition and installation of equipment, and contracts for construction. International competitive bidding will be required for: construction contracts worth more than US\$1,000,000; goods and related services contracts over US\$250,000; and consulting contracts exceeding US\$200,000 (Par. 3.11).

